

1.0 Office of Debt Collection

Summary

The Office of Debt Collection was established during the 1995 legislative session under Senate Bill 235. The responsibilities are broad and include the following:

- a. Collecting and managing State receivables
- b. Developing consistent policies governing the collection and management of State receivables
- c. Overseeing and monitoring State receivables
- d. Developing policies, procedures and guidelines for accounting, reporting, and collecting monies owed to the State
- e. Providing information, training, and technical assistance to State agencies on collection-related topics
- f. Writing an inclusive receivables management and collection manual for use of State agencies
- g. Preparing quarterly and annual reports of the State's receivables
- h. Creating/coordinating a State accounts receivable database, information systems, and procedures
- i. Establishing an automated case receipt process between State agencies
- j. Establishing procedures for writing-off accounts receivable for accounting and collections purposes.

	FY 1999	FY 2000	
Financing	Estimated	Analyst	Difference
General Fund	\$175,000	\$175,000	\$0
Beginning Nonlapsing	\$38,300	\$0	(\$38,300)
Closing Nonlapsing	\$0	\$0	\$0
	\$213,300	\$175,000	(\$38,300)
Programs	FY 1999	FY 2000	\$0
	Estimated	Analyst	Difference
Debt Collection	\$213,300	\$175,000	(\$38,300)
Total	\$213,300	\$175,000	(\$38,300)

2.0 Budget Highlights

2.1 Pilot Program has been initiated

As noted in the Annual Accounts Receivable Report, significant amounts of money are owed to the state. The Office of Debt Collection has initiated a pilot program wherein a private sector firm would be hired as the state's collection agency.

2.2 Compliance with legislative intent language

The following intent language was passed during the 1998 General Session:

It is the intent of the Legislature that after administrative costs and disbursements to required restrictive accounts, all collections of accounts receivable by the State Office of Debt Collection shall be allocated to the revenue types that generated the receivables.

Response: The Office of State Debt Collection adopted this as standard operating procedure.

It is the intent of the Legislature that all state agencies, except institutions of higher education, are to work with the Office of State Debt Collection to aggressively collect, accurately account for, and report all state receivables. To effectively accomplish this, state agencies are to be brought onto the state's advanced accounts receivable system during FY 1999 unless the advisory board to the Office of State Debt Collection authorizes the use of in-house systems already in place. These systems must provide proper accounting and reporting of receivables and facilitate timely collection of monies due the state.

Response: All agencies are currently on the advanced receivable system except those who have applied and been granted an exception by the advisory board.

It is the intent of the Legislature that the Office of State Debt Collection be authorized to establish by rule that reasonable cost of collection be passed on to the debtor including legal and administrative costs unless inappropriate or prohibited by law.

Response: This language was to be incorporated into law, but the bill has not yet be completed. The intent language should be continued. The process is being performed today with the cost of collection being passed on to the debtor.

It is the intent of the Legislature that Courts implement the recommendation noted in the Annual Accounts Receivable Report and approved by the Advisory Board to the Office of State Debt Collection. Courts will work with the Office of State Debt Collection to develop a plan of action whereby delinquent accounts can be transferred to the Office of State Debt Collection or its designee. The Office of State Debt Collection should provide timely information as to the status of the transferred accounts so that appropriate judicial action can take place as required.

Response: Courts are electronically referring accounts on a daily basis. HB11 is being submitted to the 1999 Legislature to document in law the plan of action whereby Courts transfer delinquent accounts to the Office of State Debt Collection.

It is the intent of the Legislature that the Tax Commission work toward out-sourcing all accounts over 24 months old that are not in litigation, under a payment agreement, assigned to a collector for active collection or whose out-sourcing would be in violation of State or federal law. The Tax Commission shall report the results of out-sourcing efforts to the Office of State Debt Collection.

Response: During FY 1998 the Tax Commission out-sourced \$1.72 million for collection. This is in comparison to placements of \$2.1million (1995), \$10.5 million (1996) and \$9.2 million (1997). At the end of FY 1998 the Tax Commission had \$142.6 million in receivables greater than 24 months old. To be in compliance with the intent language, Tax should be encouraged to out-source all appropriate accounts that are 24 months old or older.

It is the intent of the Legislature that State agencies will comply with rules established for write off of delinquent accounts receivable unless State or federal law prohibits such compliance. Furthermore, accounts receivable, when written off, be pursued for collection by the Office of State Debt Collection or its designee(s) until all remedies for collection have been exhausted.

Response: This has been complied with for the most part by all State agencies. It should be noted however, that the Tax Commission has received an exemption from this provision. Tax has in excess of \$200 million in write-off accounts. The Office of State Debt Collection feels these accounts should be out-sourced if the person is not deceased, the taxes have not been waived, or the cost to collect is greater than the debt owed.

**3.0 Programs -
Debt Collection**

The Analyst is recommending a level budget less carry forward balances.

	FY 1998	FY 1999	FY 2000	
Financing	Actual	Estimated	Analyst	Difference
General Fund	\$169,500	\$175,000	\$175,000	\$0
Beginning Nonlapsing	\$52,500	\$38,300	\$0	(\$38,300)
Closing Nonlapsing	(\$38,300)	\$0	\$0	\$0
Total	\$183,700	\$213,300	\$175,000	(\$38,300)
Expenditures				
Personal Services	\$146,800	\$148,000	\$148,000	
Sub -Total Travel		4,000	4,000	
Current Expense	7,500	10,500	10,200	(300)
Data Processing	29,400	50,800	12,800	(38,000)
Total	\$183,700	\$213,300	\$175,000	(\$38,300)

Summary

During the 1995 Legislative Session, the Office of State Debt Collection (63 A-8) was created with the responsibility over the collecting and managing state receivables. The Office was established as the result of recommendations from the Asset Management Task Force upon completion of their work in 1994. The Task Force determined that a significant number of accounts receivable were not being collected in a timely manner and therefore, the state was losing money and/or supplementing agency budgets with State funds.

3.1 Budget Highlights

Pilot Collection Program

Last year, the Office of State Debt Collection initiated the “Pilot Collection Project.” It was designed to compare performance of current collection processes in the State against leading-edge industry options and to determine the most appropriate methods to collect the various types of receivables in the State. Included in the project is the option to collect nonsufficient funds checks electronically. The “Pilot Collection Project” was to include a combination of third party private sector collector(s), a private sector collector contracted with the Office of State Debt Collection as its designee, and current dedicated collection personnel in the Juvenile Courts, Office of Recovery Services, Tax Commission, and Workforce Services to achieve the following ends:

1. Evaluation of collection system(s) which automate such activities as personnel scheduling, telephone call management, correspondence--legal and routine, consolidation of receivables so all money owed the State by an individual may be collected as a single account, and on-line access to data in external systems thereby introducing efficiencies into the collection process. Efficiencies of some systems, both in other States and the private sector are purported to achieve productivity gains significantly greater than are being experienced by the State today.
2. Flexibility to customize the collection process for the various types of receivables that exist in the State today. This customization along with the proposed legislative changes as mentioned above will give a full test to the system and measure the effectiveness of the remedies available to the State.
3. Capability to interface with Financial Institutions for the purpose of collecting NSF checks electronically and notifying, assessing and collecting the service charge electronically.
4. Focusing on immediate collection of past due receivables for agencies as they are transferred to the office.
5. The results of the Pilot Project would be used to benchmark against current performance measurements to determine the effectiveness of the system and/or other processes in the State.
6. The experience with the Pilot Project would be used to formulate future management strategies for the collection work of the State including the development of such options as the formation of a Centralized Collection Unit for the State.

Analysis

The Pilot Collection program has only met with limited success. Three private sector collectors were contracted to perform the collection work, one acting as a Centralized Collection Agency residing in the State Office Building and the other two located out of state. The out-of-state collection agency has withdrawn from the program claiming that there was insufficient placements to make it profitable. The other-out-of state collection agency has restricted their collection work to Tax Commission placements. The Centralized Collection Agency is functioning but has had to take upon themselves the full load of the placements and have not expanded their force adequately to address all of the accounts fully. Discussions are underway at the current time to increase the force to address this concern.

The Office of State Debt Collection (OSDC) noted to the analyst disappointment in the timeliness of placements by the State Agencies that have the bulk of the receivables (Tax Commission and Office of Recovery Services). The OSDC still believes there is great benefit to be derived from the use of private sector collectors.

The Analyst continues to believe that private sector collection agencies offer a valuable means to achieve the desired collection work at a very cost-effective rate. The Analyst believes that The Office of State Debt Collection should be given more authority to collect outstanding debts for all state agencies and that the Executive Branch should be more diligent in requiring agencies to follow current rules and statute in this matter.

To achieve this goal, the Analyst is recommending the specific statutory changes that follow.

Additional statutory authority is needed

The Office of Debt Collection continues to have considerable difficulty in carrying out its mission because of limiting factors within the enabling legislation. With over \$923 million in receivables at any given time, the Legislature should ensure that the collection efforts of the State are well coordinated, timely, and productive. Some of the changes that need legislative support include:

- establishing write-off policies that supersede all other established procedures
- establish by rule standard time limits for agencies to turn accounts over to the Office
- gain access to information held in criminal justice agencies
- gain access to information held by financial institutions for purpose of determining assets
- opening the records of various State agencies to allow the Office access to any helpful information
- allow passage of all collection and attorney costs on to the debtor
- consolidate responsibility for the collection of accounts receivable into one chapter in the code
- remove time constraints and receivable type related to outsourcing
- broaden the collection remedies available, etc.

Annual accounts receivable report

The State Office of Debt Collection is required to prepare quarterly and annual reports of the State's receivables. The annual report for FY 1998 is included in this budget review.

4.0 Tables: Office of Debt Collection

	FY 1997	FY 1998	FY 1999	FY 2000
	Actual	Actual	Estimated	Analyst
Financing				
General Fund	\$164,600	\$169,500	\$175,000	\$175,000
General Fund (One-time)				
Total General Fund	\$164,600	\$169,500	\$175,000	\$175,000
Dedicated Credits	1,300			
Beginning Nonlapsing	68,500	52,500	38,300	
Closing Nonlapsing	(52,500)	(38,300)		
Lapsing				
Total	\$181,900	\$183,700	\$213,300	\$175,000
Expenditures				
Personal Services	\$138,500	\$146,800	\$148,000	\$148,000
In-State Travel	600		700	700
Out-of-State Travel			3,300	3,300
Sub -Total Travel	600		4,000	4,000
Current Expense	31,700	7,500	10,500	10,200
Data Processing	11,100	29,400	50,800	12,800
Total	\$181,900	\$183,700	\$213,300	\$175,000

	FY 1997	FY 1998	FY 1999	FY 2000
	Actual	Actual	Estimated	Analyst
Programs				
Debt Collection	\$181,900	\$183,700	\$213,300	\$175,000
Total	\$181,900	\$183,700	\$213,300	\$175,000

	FY 1997	FY 1998	FY 1999	FY 2000
	Actual	Actual	Estimated	Analyst
FTE Standard	2.0	2.3	2.3	2.0
FTE Building Block				
Total	2.0	2.3	2.3	2.0